

Message Text

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ACTION NEA-10

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E.O. 11652: N/A
TAGS: EGEN, IN
SUBJECT: THE BATEMAN MISSION

1. A GROUP OF BRITISH INDUSTRIALISS, LED BY SIR RALPH BATEMAN, VISITED INDIA IN NOVEMBER AND THE REPORT OF THE MISSION WAS RECENTLY ISSUED. THE PURPOSE OF THE MISSION, WHICH CAME AT THE PERSISTENT URGING OF THE INDIANS, WAS TO ASSESS THE CURRENT ECONOMIC SITUATION AND POLICIES TOWARDS BUSINESS; TO LOOK FOR NEW INVESTMENT; EXPORT AND TECHNOLOGICAL COLLABORATION OPPORTUNITIES; AND TO EXAMINE THE PROSPECTS FOR JOINT VENTURES IN THIRD COUNTRIES. THE MISSION, WHICH TRAVELED WIDELY IN INDIA, WAS RECEIVED HERE WITH A GREAT DEAL OF PUBLICITY AND THE GOI AND BUSINESS COMMUNITY MADE A MAJOR EFFORT TO INSURE A FAVORABLE ASSESSMENT OF THE BUSINESS CLIMATE. THE REPORT IS A FRANK EVALUATION AND THE ASSOCHAM, WHICH SPONSORED THE VISIT HERE, IS DISAPPOINTED WITH WHAT IT CONSIDERS THE NEGATIVE TENOR OF CERTAIN SECTIONS OF THE REPORT.

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2. THE REPORT BEGINS ON A POSITIVE NOTE BY STATING IT HAS BEEN FOR MANY YEARS AND THAT BUSINESS CONFIDENCE IS RUNNING HIGH. INDUSTRIAL OUTPUT HAS INCREASED AND MANY OF THE SHORTAGES OF COAL, STEEL, TRANSPORT AND RAW MATERIALS WHICH HAVE PLAGUED INDIA FOR YEARS HAVE DISAPPEARED AND WHILE THE ELECTRIC POWER PROBLEM IS BETTER THAN IT WAS TWO YEARS AGO, THE REPORT NOTES, THERE ARE STILL BLACK SPOTS IN THE ECONOMY, SUCH AS JUTE, COTTON TEXTILES AND SOME SECTORS OF THE ENGINEERING INDUSTRY. THE ECONOMIC REVIVAL IS ASCRIBED TO GOOD MONSOONS, GOOD ECONOMIC MANAGEMENT, NATURAL EVENTS IN THE TRADE CYCLE (RE. WORLD ECONOMIC

RECOVERY) AND THE EMERGENCY, INCLUDING SUCCESS IN COPING WITH BLACK MONEY AND SMUGGLING. THE PUBLIC SECTOR APPEARS CERTAIN TO PLAY A MAJOR ROLE IN INDUSTRIALIZATION, BUT THE MISSION WAS TOLD BY THE MOI THAT THE PRIVATE SECTOR STILL ACCOUNTS FOR 75 PERCENT OF INDUSTRIAL PRODUCTION.

3. THE REPORT DESCRIBES INDIA'S ATTITUDE TOWARD FOREIGN INVESTMENT AS AMBIVALENT AND QUESTIONS THE RATIONALE OF THE NEED TO CONSERVE FOREIGN EXCHANGE AS THE REASON FOR THE GOI'S RESTRICTIVE INVESTMENT POLICY. IT POINTS OUT THAT THIS RATIONALE IGNORES THE GREAT NATIONAL BENEFITS WHICH RESULT FROM PRODUCTIVE INDUSTRIAL INVESTMENT AND TAKES NO ACCOUNT OF THE WORLD SHORTAGE OF CAPITAL NOR OF THE FACT THAT INDIA HAS TO COMPETE FOR FOREIGN INVESTMENT. IT CONCLUDES THAT THE BIAS AGAINST FOREIGN INVESTMENT IS DUE TO NATIONALISM AND IRRATIONAL FEAR OF EXPLOITATION. THE REPORT STATES THAT THE UNWELCOME ATTITUDE TOWARD FOREIGN INVESTMENT IS SURPRISING IN A COUNTRY WHICH HAS SUCH AN ENORMOUS NEED FOR CAPITAL. THE REPORT DEFINES FERA AS AN INSTRUMENT FOR REDUCING THE EXTENT OF FOREIGN INVESTMENT IN INDIA. IT ARGUES THAT THE GOI PRACTICE OF NOT ALLOWING FREELY NEGOTIATED PRICES FOR THE SALE OF SHARES OF A COMPANY COMPLYING WITH THE FERA AND INSTEAD REQUIRING THE ESTABLISHING OF LOWER PRICES IS UNFAIR. THE REMITTANCE OF THE PROCEEDS OF A DISINVESTMENT AND THE SPREADING OF INSTALLMENTS OVER THREE TO FIVE YEARS AND SOMETIMES OVER LONGER LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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PERIODS IS INCONSISTENT WITH THE CURRENTLY FAVORABLE FOREIGN EXCHANGE POSITION AND A DETERRENT TO POTENTIAL NEW INVESTORS. THE REPORT SAYS THE EXEMPTION CLAUSE IN THE FERA, WHICH ALLOWS A COMPANY WITH AN EXISTING AGREEMENT WITH THE GOI REGARDING OPERATIONS AND SHAREHOLDERS TO ESCAPE CERTAIN FERA PROVISIONS, SHOULD BE USED MORE EXTENSIVELY. THE CONVERTIBILITY CLAUSE IN LOAN AGREEMENTS WITH PUBLIC FINANCIAL INSTITUTIONS COULD RESULT IN DILUTION OF FOREIGN EQUITY BELOW THE STANDARD LEVEL OF 74, 51 AND 40 PERCENT OF THE FERA. THE REPORT CONCLUDES THAT IT IS DIFFICULT TO BE ENTHUSIASTIC ABOUT FOREIGN INVESTMENT PROSPECTS IN INDIA, BUT PROSPECTS DO EXIST IF A COMPANY POSSESSES TECHNOLOGY, WHICH INDIA WANTS, OR IF IT CAN EXPORT FROM INDIA.

4. ON TECHNICAL COLLABORATIONS, THE REPORT STATES THAT ROYALTY RATES ARE TOO LOW, BUT NOTES THAT THE GOI MAY BE PREPARED TO DEAL MORE LIBERALLY, PARTICULARLY IF THE OUTPUT IS TO BE EXPORTED. IT POINTS OUT THAT TECHNICAL COLLABORATIONS OFFER MORE SCOPE FOR NEW BUSINESS AND URGES RECONSIDERATION OF HIGH TAX LEVELS ON ROYALTIES AND LUMP SUM PAYMENTS FOR TECHNICAL KNOW-HOW WHICH CONSTITUTE A SERIOUS DETERRENT TO THE TRANSFER OF TECHNOLOGY.

5. ACCORDING TO THE REPORT, THE MAIN FOCUS FOR JOINT VENTURES IN THIRD COUNTRIES ARE LARGE CONSTRUCTION AND CIVIL ENGINEERING PROJECTS IN THE MIDDLE EAST. INDIA CLAIMS TO HAVE EXTENSIVE

ENGINEERING CAPABILITY, LOW-LEVEL COSTS, PROFICIENT INTERMEDIATE TECHNOLOGY, EXPORT HOUSES, CONSULTANCY CAPABILITY, ALL OF WHICH SHOULD SERVE IT WELL IN ESTABLISHING THIS TYPE OF VENTURE. BUT ALSO IN THE OPINION OF THE MISSION, THE INDIAN SIDE UNDERESTIMATES THE DIFFICULTIES AND RISKS INVOLVED IN JOINT VENTURES AS IT HAS YET TO UNDERGO THE EXPERIENCE OF HAVING ITS FINGERS BURNED WITH UNREMUNERATIVE CONTRACTS. THE REPORT SUGGESTS THAT THE PROCESS OF COLLABORATION IN THIRD COUNTRIES CAN BE MOST FRUITFULLY INITIATED BY SUBCONTRACTING AND SUPPLYING EQUIPMENT FROM INDIAN COMPANIES.

6. THE MISSION CONSIDERS THAT OFFSHORE OIL AND GAS DISCOVERIES
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PRESENT THE UK WITH ONE OF THE BEST OPPORTUNITIES IN INDIA FOR THE SALE OF GOODS AND SERVICES AND RECOMMENDS A CONCERTED BRITISH SALES EFFORT IN THIS AREA.

7. ACCORDING TO THE REPORT, THE INDIANS EXPRESSED SURPRISE AT BRITAIN'S POOR TRADE PERFORMANCE WITH INDIA WHICH THE INDIANS ATTRIBUTE TO BRITAIN'S LACK OF COMPETITIVENESS IN PRICE, DELIVERY, QUALITY OF TECHNOLOGY AND AFTER-SALES SERVICE. BRITISH BUSINESSMEN ARE NOT AS AGGRESSIVE AS THE GERMANS AND JAPANESE, SAY THE INDIANS.

8. THE REPORT MAKES SEVERAL RECOMMENDATIONS FOR STRENGTHENING AND IMPROVING INDO-BRITISH COMMERCIAL RELATIONS. MOST IMPORTANT ARE THE NEED FOR AN AVOIDANCE OF DOUBLE-TAXATION AGREEMENT AND AN INVESTMENT PROTECTION AGREEMENT. THE MISSION ALSO RECOMMENDS THAT PRIORITY BE GIVEN TO REVIEWING BRITISH POLICIES ON AID TO INDIA IN ORDER TO MAKE SUCH AID A MORE EFFECTIVE INSTRUMENT FOR PROMOTING BRITISH EXPORTS. THE REPORT EMPHASIZES THE NEED FOR BRITISH BUSINESS TO HAVE AN EFFICIENT COMMUNICATIONS MECHANISM AND RECOMMENDS THE ESTABLISHMENT OF A BI-NATIONAL CHAMBER OF COMMERCE, SIMILAR TO THE INDO-GERMAN, INDO-JAPANESE, AND THE INDO-AMERICAN CHAMBERS, WHICH WOULD PROMOTE AND PROTECT BRITISH COMMERCIAL INTERESTS. WE UNDERSTAND THAT THIS RECOMMENDATION DOES NOT HAVE VERY ENTHUSIASTIC SUPPORT AMONG SOME OF THE LEADING BRITISH AFFILIATED COMPANIES IN INDIA, SUCH AS CI, LEVER, DUNLOP AND BROOKE BOND.

9. THE REPORT WAS A DISAPPOINTMENT TO THE INDIANS AND HAS RECEIVED LITTLE PUBLICITY HERE AT THE REQUEST OF THE CONFEDERATION OF BRITISH INDUSTRIES. WE ARE TOLD THAT A RECIPROCAL DELEGATION HEADED BY THE PRESIDENT OF ASOCHAM, WHICH WENT TO LONDON IN LATE JANUARY, WAS ALSO DISAPPOINTED BY THE THE RELATIVELY LOW-LEVEL RECEPTION ACCORDED IT.

10. WE ARE POUCHING COPIES OF THE REPORT TO NEA/INS AND USDOC.
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